

## Message Text

CONFIDENTIAL

PAGE 01 SEOUL 01465 01 OF 02 220801Z

ACTION EB-08

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 IO-13 DODE-00 PM-04 H-01  
L-03 NSC-05 PA-01 PRS-01 SS-15 /094 W  
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R 220634Z FEB 77

FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 2238  
INFO AMEMBASSY TOKYO  
AMEMBASSY TAIPEI  
AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 1465

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

E.O. 11652: GDS  
TAGS: EFIN ETRD IMF  
SUBJ: IMF CONSULTATIONS

REF: SEOUL 0329 (NOTAL)

SUMMARY: AN IMF MISSION HAS CONCLUDED A PROPOSED NEW "SYMBOLIC" STAND-BY AGREEMENT WITH THE ROKG FOR CY 1977. THE KEY CEILINGS REPORTEDLY CORRESPOND CLOSELY TO THE ROKG'S OWN PLANNING TARGET FOR 1977. THE MISSION'S REPORT IS EXPECTED TO BE BROADLY LAUDATORY OF KOREAN ECONOMIC PERFORMANCE. HOWEVER, WHILE CONCEDED THE ROKG APPEARS TO BE GIVING SERIOUS CONSIDERATION TO IMPORT LIBERALIZATION OVER THE LONGER TERM, WE UNDERSTAND THE MISSION FOUND THE ROKG TO BE DISAPPOINTINGLY CAUTIOUS AND EVASIVE ABOUT DISCUSSING SPECIFIC MEASURES; AN ATTITUDE WHICH SOME IMF PARTICIPANTS PRIVATELY SUGGESTED MAY HAVE REFLECTED DIPLOMATIC CONSIDERATIONS MORE THAN ECONOMIC CONCERNS. END SUMMARY.

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PAGE 02 SEOUL 01465 01 OF 02 220801Z

1. AN IMF MISSION HEADED BY JOACHIM AHRENSDORF DEPARTED SEOUL ON THE WEEKEND OF FEBRUARY 19 FOLLOWING TWO WEEKS OF CONSULTATIONS WITH THE ROKG. AS ANTICIPATED, THE MISSION NEGOTIATED A STAND-BY AGREEMENT FOR CALENDAR YEAR 1977 SUBJECT TO APPROVAL BY THE IMF EXECUTIVE BOARD.

2. ONE OF THE MORE TROUBLESOME ISSUES ADDRESSED WAS THE QUESTION

OF THE JUSTIFICATION FOR ANOTHER STAND-BY. CONCLUDING IT COULD NOT REALLY BE JUSTIFIED ON BALANCE OF PAYMENTS GROUNDS, THE MISSION WILL REPORTEDLY RECOMMEND THAT IT BE CONSIDERED A "SYMBOLIC STAND-BY". THERE APPARENTLY ARE SOME PRECEDENTS FOR "SYMBOLIC STAND-BYS", ALTHOUGH NOT QUITE IN THESE CIRCUMSTANCES. THE RATIONALE FOR THIS ARRANGEMENT IS THAT THE ROKG WILL STILL BE ABLE TO RETAIN THE IMAGE OF SUBMITTING TO IMF MONITORING AND DISCIPLINE EVEN THROUGH THE POSSIBILITY THAT IT WILL MAKE ANY DRAWINGS UNDER THIS STAND-BY IS VERY BFVOTE. THE RISE IN FX RESERVES IN 1976, IN FACT, TRIGGERED AN AUTOMATIC REPAYMENT REQUIREMENT FOR A PORTION OF KOREA'S FIRST CREDIT TRANCHE AND FURTHER REPAYMENTS ARE CURRENTLY SCHEDULED FOR 1977.

3. WHILE NO DETAILS ON THE PROPOSED AGREEMENT HAVE BEEN RELEASED, WE UNDERSTAND THE CEILINGS SELECTED WERE LARGELY TAKEN FROM KOREA'S OWN PLANNING TARGETS FOR 1977, E.G., CEILINGS OF APPROXIMATELY 25 PERCENT FOR BOTH MONEY SUPPLY (M-1) AND DOMESTIC CREDIT EXPANSION. THE MISSION WAS ACTUALLY PREPARED TO CONSIDER HIGHER CEILINGS, BUT DEFERRED TO ROKG CONCERNS THAT HIGHER CEILINGS WOULD SUGGEST A LACK OF CONFIDENCE IN THE GOVERNMENT'S PLANNING TARGETS.

4. THE MISSION'S REPORT IS EXPECTED TO BE GENERALLY LAUDATORY WITH RESPECT TO VIRTUALLY ALL ASPECTS OF KOREA'S ECONOMIC PERFORMANCE, EVEN FINDING GROUNDS TO COMMEND THE ROKG'S PROGRESS IN SUCH AREAS AS INTEREST RATE STRUCTURE AND FISCAL PERFORMANCE WHERE THE IMF HAS FREQUENTLY BEEN CRITICAL OF STRUCTURAL WEAKNESSES IN THE PAST. WE UNDERSTAND, HOWEVER, THAT THE MISSION WAS QUITE DISAPPOINTED WITH THE ROKG'S RESPONSES IN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SEOUL 01465 01 OF 02 220801Z

DISCUSSIONS ON LIBERALIZATION, PRINCIPALLY IMPORT LIBERALIZATION, WHICH TOOK UP A MAJOR PORTION OF THE MISSION'S TIME. THE MISSION REPORTEDLY LEFT WITH THE IMPRESSION THAT THE ROKG, IN FACT, IS GIVING SERIOUS CONSIDERATION TO SUBSTANTIAL IMPORT LIBERALIZATION OVER THE LONGER TERM, BUT FOUND THE ROKG VERY CAUTIOUS AND EVASIVE WHEN IT CAME TO DISCUSSING SPECIFIC MEASURES. THE MISSION TOOK THE APPROACH THAT, EVEN AS AN LDC, A COUNTRY LIKE KOREA, WHICH HAS ADJUSTED VERY SUCCESSFULLY TO THE OIL CRISIS, ETC., HAS A ROLE TO PLAY IN HELPING SMOOTH OUT GLOBAL ADJUSTMENT. IN KOREA'S CASE, THIS CALLS FOR EASING UP ON IMPORT RESTRAINTS, ACTION THAT IS FURTHER WARRANTED ON THE GROUNDS OF OPTIMAL ECONOMIC POLICY FOR KOREA. THE MISSION, HOWEVER, WAS UNABLE TO PIN THE ROKG DOWN TO ANY SPECIFIC COMMITMENTS. ALTHOUGH THE PROPOSED STAND-BY APPARENTLY CONTAINS SOME REFERENCES TO LIBERALIZATION, THEY ARE GENERAL IN NATURE.

5. WHILE CONCEDED THAT THERE ARE UNCERTAINTIES IN THE 1977 GLOBAL ECONOMIC OUTLOOK WHICH MAKE FORECASTING HAZARDOUS, IT WAS APPARENTLY THE PRIVATE OPINION OF MISSION MEMBERS THAT KOREA

COULD VERY WELL RUN A CURRENT ACCOUNT SURPLUS IN 1977. IF THAT OCCURS, THE MISSION BELIEVED IT WILL BE DIFFICULT FOR KOREA TO STAY WITHIN ITS MONEY SUPPLY AND DOMESTIC CREDIT CEILINGS AND THAT INFLATIONARY PRESSURES WILL BE PICKING UP STRENGTH AS THE YEAR PROGRESSES. PRIVATELY, AT LEAST, MISSION MEMBERS WERE HOPEFUL THOSE PRESSURES WILL PROMPT THE ROKG INTO MOVING FASTER ON IMPORT LIBERALIZATION THAN IT IS WILLING TO COMMIT ITSELF TO DO AT THIS TIME.

6. WE UNDERSTAND THAT AT LEAST SOME OF THE IMF PARTICIPANTS CAME AWAY FROM THE DISCUSSIONS CONVINCED THAT THE ROKG'S EXCEPTIONAL CAUTION ON THE ISSUE OF LIBERALIZATION WAS RELATED MORE TO DIPLOMATIC CONSIDERATIONS, PARTICULARLY NERVOUSNESS OVER WHAT THE NEW U.S. ADMINISTRATION MEANS FOR U.S./ROK RELATIONS, THAN TO ECONOMIC CONCERNS. THEIR INTERPRETATION WAS BASED IN PART ON WHAT THEY CONSIDERED TO BE THE SHALLOWNESS OF MANY OF THE ECONOMIC ARGUMENTS PUT FORTH FOR GOING SLOW  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 SEOUL 01465 01 OF 02 220801Z

ON LIBERALIZATION, AND IN PART ON THE FACT THAT ROKG OFFICIALS FREQUENTLY SOUGHT TO CLOSE OFF THESE DISCUSSIONS WITH CRYPTIC COMMENTS ABOUT THERE BEING TOO MANY UNCERTAINTIES TO RISK UNDERTAKING MAJOR POLICY CHANGES AT THIS TIME.

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PAGE 01 SEOUL 01465 02 OF 02 220738Z

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 1465

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

7. COMMENT: WE WERE PLEASED TO SEE THE IMF DEVOTE AS MUCH TIME AS IT DID TO THE ISSUE OF LIBERALIZATION. WHILE WE WERE HOPEFUL THE ROKG MIGHT BE MORE FORTHCOMING IN THE WAY OF SPECIFIC COMMITMENTS, THE UNWILLINGNESS TO SPELL OUT ANY COMMITMENTS MAY SIMPLY REFLECT AN UNDERSTANDABLE DESIRE ON THE PART OF ROKG OFFICIALS TO KEEP THEIR OPTIONS OPEN UNTIL THEIR OWN DECISION MAKING PROCESS IS FURTHER ALONG. THE DIPLOMATIC CONCERNS SUGGESTED ABOVE, MOREOVER, QUITE PROBABLY ARE REINFORCING THIS TENDENCY. WE WOULD HAVE PREFERRED, HOWEVER, THAT THE IMF EMPHASIZE THE DOMESTIC KOREAN COST IN WELFARE AND GROWTH OF ITS PROTECTIONISM AND NOT THE NEED TO SHARE THE BURDEN OF "GLOBAL ADJUSTMENT" AS IF KOREA HAD OFFENDED INTERNATIONAL EQUITY THE SAME AS JAPAN AND GERMANY. THE KOREANS COULDN'T ACCEPT THAT LOGIC. ALL IN ALL, WE BELIEVE THE NET EFFECT OF THIS PRESSURE FROM THE IMF WILL ULTIMATELY STRENGTHEN THE HANDS OF THE ADVOCATES OF IMPORT LIBERALIZATION.

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